

OFFICIAL FILE

DOCKET No. 01-0050
ICC STAFF EXHIBIT 1.00

I.C.C. DOCKET NO. 01-0050

Exhibit No. 1.00

Witness Staff

Date 4-19-01 Reporter FLB

DIRECT TESTIMONY

OF

THOMAS L. GRIFFIN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES, INC.
WESTLAKE UTILITIES, INC.
WESTLAKE UTILITY SERVICE COMPANY

DOCKET No. 01-0050

MARCH 30, 2001

1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Thomas L. Griffin. My business address is 160 North LaSalle St.
4 Chicago, Illinois 60601.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am a supervisor in the Accounting Department of the Financial Analysis Division of
7 the Illinois Commerce Commission ("Commission").

8 **Q. Please describe your qualifications.**

9 A. For sixteen years prior to my employment with the Commission, I served private
10 industry in various capacities, ranging from Staff Accounting positions to Manager of
11 Accounting and encompassing all areas of accounting and internal auditing. Since
12 joining the Commission's Accounting Department in 1978 I have participated in or
13 supervised the accounting activity in cases involving gas, electric, telephone and
14 water utilities as well as cases involving companies in the transportation industry.

15 I have a degree in Business Administration with a concentration in Accounting from
16 Governors State University and a degree in Advanced Accounting from International
17 Accountants.

Q. What is the function of the Accounting Department of the Illinois Commerce Commission?

A. The Department's function is to monitor the financial condition of public utilities as part of the Commission's responsibilities under Article IV of the Public Utilities Act ("Act") (220 ILCS 5/1-101, et seq.) and to provide accounting expertise on matters before the Commission.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in numerous cases before the Illinois Commerce Commission. I have also testified as an expert accounting witness before the Circuit Courts in Rock Island, Illinois and Chicago, Illinois.

Q. What are your responsibilities in this case?

A. I have been assigned to this case by the Manager of the Accounting Department of the Commission. I am to review Utilities, Inc. ("UI"), Westlake Utility, Inc. ("WUI"), and Westlake Utility Service Company's ("WUSC") Joint Petition requesting Commission approval of WUI's proposed purchase of WUSC and other relief. I am also to review the filed testimony, analyze the underlying data and make recommendations where appropriate.

36

37 **Purpose of Testimony**

38 **Q. What is the purpose of your testimony in this proceeding?**

39 A. The purpose of my testimony is to address the petitioners' compliance with
40 Subsections 7-204(b)(2), 7-204(b)(3) and 7-204(b)(7) of the Act. I will also address
41 their treatment of savings and costs associated with the proposed merger pursuant
42 to Subsection 7-204(c). In addition I will address the petitioners' request for
43 Commission approval for UI. to enter into a service contract with Water Service
44 Corp. ("WSC"), an affiliated company.

45 **Compliance with Subsection 7-204(b)(2)**

46 **Q. Describe the requirements of Subsection 7-204(b)(2).**

47 A. Subsection 7-204(b)(2) states that, to approve any proposed reorganization, the
48 Commission must find that the proposed reorganization will not result in the
49 unjustified subsidization of non-utility activities by the utility or its customers.

50 **Q. Is the petitioners proposed reorganization in compliance with Subsection 7-**
51 **204(b)(2)?**

52 A. Yes, in their Petition (page 5) the Joint Petitioners state that the proposed
53 reorganization will not result in the unjustified subsidization of non-utility activities by
54 WUI or its customers. It is my understanding that none of WUSC assets are utilized
55 in non-utility activity. Thus, I recommend that the Commission, in accordance with
56 Subsection 7-204(b)(2), find that the proposed reorganization will not result in the
57 unjustified subsidization of non-utility activities by the utility or its customers.

58 **Compliance with Subsection 7-204(b)(3)**

59 **Q. Describe the requirements of Subsection 7-204(b)(3).**

60 A. Subsection 7-204(b)(3) states that, to approve any proposed reorganization, the
61 Commission must find that costs and facilities are fairly and reasonably allocated
62 between utility and non-utility activities in such a manner that the Commission may
63 identify those costs and facilities which are properly included by the utility for rate
64 making purposes.

65 **Q. Is the petitioners' proposed reorganization in compliance with Subsection 7-**
66 **204(b)(3)?**

67 A. Yes. To the extent that there would be any costs associated with non-utility activities,
68 the company has allocation procedures that would serve as a reasonable means to
69 guard against unjustified subsidization of non-utility activities. Thus, I recommend
70 that the Commission, in accordance with Subsection 7-204(b)(3), find that costs and

71 facilities are fairly and reasonably allocated between utility and non-utility activities in
72 such a manner that the Commission may identify those costs and facilities which are
73 properly included by the utility for ratemaking purposes.

74 **Compliance with Subsection 7-204(b)(7)**

75 **Q. Describe the requirements of Subsection 7-204(b)(7).**

76 **A.** Subsection 7-204(b)(7) states that, to approve any proposed reorganization, the
77 Commission must find that the proposed reorganization is not likely to result in any
78 adverse rate impacts on retail customers.

79 **Q. Is the petitioners' proposed reorganization in compliance with Subsection 7-**
80 **204(b)(7)?**

81 **A.** Yes, I agree with Commission Staff witness Pilapil that there would be no adverse
82 rate impact due to the merger (ICC Staff Exhibit 2.00). I have concluded that the cost
83 reductions that would be realized by ratepayers in future rate proceedings, described
84 by Erin L. Nicholas in her Direct Testimony, would exceed any additional cost to be
85 realized by ratepayers in a future rate proceeding. Thus, I recommend that the
86 Commission, in accordance with Subsection 7-204(b)(7), find that the proposed
87 reorganization is not likely to result in any adverse rate impacts on retail customers.

88 **Compliance with Subsection 7-204(c)**

89 **Q. Describe the requirements of Subsection 7-204(c).**

90 **A. Subsection 7-204(c) states that the Commission shall not approve a reorganization**
91 without ruling on (i) the allocation of any savings resulting from the proposed
92 reorganization; and (ii) whether the companies should be allowed to recover any
93 costs incurred in accomplishing the proposed reorganization and, if so, the amount
94 of costs eligible for recovery and how the costs will be allocated.

95 **Q. Have the Joint Petitioners addressed Subsection 7-204(c) of the Public**
96 **Utilities Act in their testimony?**

97 **A. Yes.**

98 **Q. What is the petitioners' position with regard to savings resulting from the**
99 **proposed reorganization?**

100 **A. With respect to savings, Ms. Nicholas states that savings are expected to occur due**
101 to economies of scale resulting from the merger. These savings will be passed on
102 to rate payers in future rate cases. I agree with her position. It is appropriate for
103 future rates to reflect only future costs. Therefore, future revenue requirements should
104 not be increased in order to enable the company to retain any portion of the savings
105 resulting from the merger. Future revenue requirements should continue to be based
106 upon the reasonable and prudent costs incurred by the utility to provide service to its
107 customers. I recommend that the Commission's Order find that any cost savings

108 resulting from the merger should not increase the revenue requirement in future rate
109 filings.

110 **Q. What is the petitioners' position with regard to merger costs?**

111 A. Petitioners estimate that the total cost of the merger will be \$6,500 and will be
112 incurred to meet the necessary cost of incorporation and regulatory approvals. Their
113 proposal is to charge the costs to Account 301, "Organization Expense" and include
114 them in the their rate base in future rate case filings.

115 **Q. Do you agree with the petitioners' treatment of merger costs, which was**
116 **provided in response to your data request?**

117 A. No. Recent Commission Orders, which have been entered after the adoption of
118 Subsection 7-204(c) effective December 16, 1997, have identified this type of
119 merger cost as a "transactions cost" and have disallowed recovery of "transactions
120 costs" from ratepayers. The Commission has disallowed these "transactions costs"
121 in the following dockets:

122 98-0545 and 98-0546 - the merger of CIPS and UE into Ameren;

123 99-0121 - the rate determination of AmerenCIPS and AmerenUE for unbundled non
124 residential delivery services;

125 98-0555 - the merger of SBC and Ameritech;

126 98-0866 - the merger of GTE and Bell Atlantic;

99-0418 - the merger of Illinois American Water and Northern Illinois Water; and
99-0457 - the merger of Illinois American Water and United Water Company.

Q. What accounting treatment do you recommend for the present merger?

A. Accounting Instruction 21 of the Commission's Uniform System of Accounts for Water Utilities (83 Ill. Adm. Code 605) describes the appropriate accounting treatment for acquisitions. Under Accounting Instruction 21, expenses incidental to the acquisition are included in the total cost which is charged to Account 104 "Utility Plant Purchased or Sold". Account 104 is then credited and the net book value of the plant purchased is recorded in the appropriate plant and depreciation accounts. Any remaining amount is then either debited or credited to Account 114 "Utility Plant Acquisition Adjustment."

In the present merger the entire \$6,500 merger cost should be charged to Account 104 as part of the purchase price and then Account 104 should be credited and Account 114 should be debited for the \$6,500. None of the merger costs will be recovered from ratepayers in any future rate proceeding.

Q. Describe the proposed rate making treatment of the acquisition adjustment.

A. The petitioners expect a credit acquisition adjustment resulting from the merger to total approximately \$59,310. They intend to record the acquisition adjustment in Account 114, "Utility Plant Acquisition Adjustments" and amortize the adjustment

below-the-line to Account 426, "Miscellaneous Non-Utility Expenses" over 50 years and not include any unamortized portion in rate base. I support this treatment. However, under Accounting Instruction 21, the credit balance of \$59,310 should be reduced by the \$6,500 in merger costs as previously described, leaving a credit balance of \$52,810. I recommend that the Commission order conclude that the acquisition adjustment, including merger costs, should be recorded in Account 114, "Utility Plant Acquisition Adjustments", and be amortized below-the-line to Account 426, "Miscellaneous Non-Utility Expenses" over 50 years, and the unamortized portion of the acquisition adjustment not be included in rate base for future rate cases.

Q. Please summarize your recommendations regarding the requirements of Subsection 7-204(c).

A. I recommend that the Commission find the following, in accordance with Subsection 7-204(c):

- Any cost savings resulting from the merger should not increase the revenue requirement in future rate filings;
- The cost incurred to effect the merger should be charged to Account 114, "Utility Plant Acquisition Adjustments"; and

- The credit acquisition adjustment should be recorded in Account 114, "Utility Plant Acquisition Adjustments", and be amortized below-the-line to Account 426, "Miscellaneous Non-Utility Expenses", over 50 years, and the unamortized portion of the acquisition adjustment not be included in rate base for future rate cases.

Request for Approval of an Affiliated Service Contract

Q. Do you support the petitioners' request for WUI to enter into a service contract with WSC, an affiliated interest?

A. Yes, all of UI's Illinois utility subsidiaries have such a service contract with WSC. Various administrative costs are allocated to utilities for services performed by WSC. During each prospective rate case, Staff would review the allocations for appropriateness. I recommend that the Commission approve the service contract between WUI and WSC.

Other Recommendations

Q. Do you have any other recommendations?

A. I recommend that the Commission order the company to comply with Paragraph B of the instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform

System of Accounts for Water Utilities, and require the Petitioners to file with the Commission, and a copy to the Manager of the Accounting Department, the journal entries to clear from this account the amounts recorded therein. This should be done within six months of the effective date of the acquisition.

Summary

Q. Please summarize your findings and recommendations.

A. I recommend as follows:

- 1) that the Commission, in accordance with Subsection 7-204(b)(2), find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;
- 2) that the Commission, in accordance with Subsection 7-204(b)(3), find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes;
- 3) that the Commission, in accordance with Subsection 7-204(b)(7), find that the proposed reorganization is not likely to result in any adverse rate impacts on retail customers;

- 201 4) that the Commission, in accordance with Subsection 7-204(c)(i), order that any
202 cost savings resulting from the merger should not increase the revenue
203 requirement in future rate filings;
- 204 5) that the Commission, in accordance with Subsection 7-204(c)(ii), order that the
205 cost incurred to effect the merger be charged to Account 114, Utility Plant
206 Acquisition Adjustment ;
- 207 6) that the Commission, in accordance with Subsection 7-204(c)(ii), order that the
208 acquisition adjustment should be recorded in Account 114, Utility Plant
209 Acquisition Adjustments, and be amortized below-the-line to Account 426,
210 Miscellaneous Non-Utility Expenses, over 50 years, and that the unamortized
211 portion of the acquisition adjustment not be included in rate base for future rate
212 cases;
- 213 7) that the Commission approve the service contract between WUI and WSC; and
- 214 8) that the Commission order the company to comply with Paragraph B of the
215 instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform
216 System of Accounts for Water Utilities, and require the petitioners to file with the
217 Commission, and a copy to the manager of the Accounting Department, the
218 journal entries to clear from this account the amounts recorded therein. This
219 should be done within six months of the effective date of the acquisition.

220 Q. Does this conclude your testimony?

221 A. Yes, it does.